ANALYSIS OF PRIVATE CAPITAL FUNDS FOR THE BLUE ECONOMY

Action 7.1 Reverse due diligence analysis of Blue Economy private equity funds

FANBEST
FUNDING ATLANTIC NETWORK FOR BLUE ECONOMY TECHNOLOGY TRANSFER

Interreg Atlantic Area
European Regional Development Fund
EUROPEAN UNION

Mobilising funds and services for a competitive blue economy in the Atlantic regions

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Contents

1. INTRODUCTION

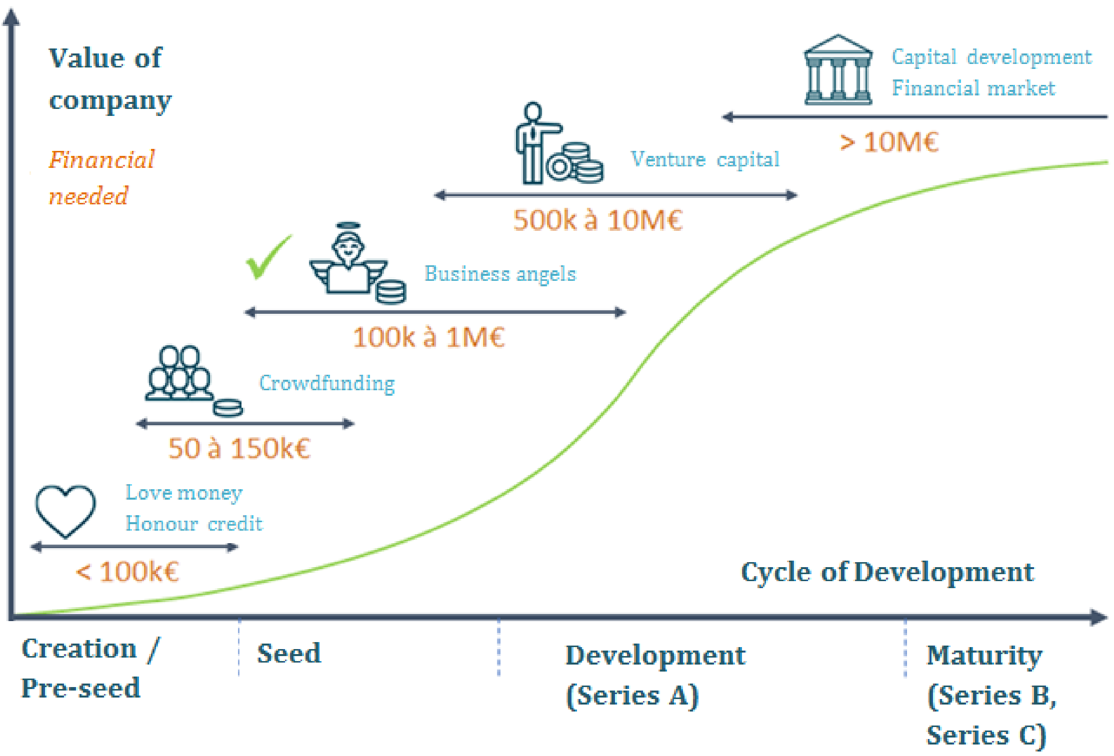
The present report builds upon the results achieved in WP4 of the FAN-BEST project with a stronger focus on equity funds for the blue economy. Exploiting the stakeholders map developed in activity 4.2 (Depellegrin D, 2022), the analysis consists of extracting the key characteristics of a representative set of private equity funds with proven track-record in the Blue Economy (seed, series A, crowdfunding, etc...). For each category of fund, the objective is to determine the typical procedure and documents for an entrepreneur to prepare. In turn, common characteristics as well as special features are described.

Ultimately, this action combines various inputs to outline a set of recommendations that can be drawn out for entrepreneurs to best engage a fund-raising campaign. This reverse analysis of the typical due diligence process that an entrepreneur must go through when raising equity funds led to the production of guidelines on how to best approach and negotiate with the different type of funds one entrepreneur may encounter in the Blue Economy landscape.

Before engaging with the analysis, let us define the scope of the analysis. It is commonly accepted to classify the type of fundraising depending on the amount of money raised. In the table below, we summarize the 5 main types of fundraising types. This report purposely focuses on the three first fundraising types, namely, pre-seed, seed and series A because they correspond to the core interest of the FAN-BEST dealing with early-stage innovative entrepreneurship projects.

Fundraising type	Main purpose	Typical amount
Pre-seed	Conception of the product, POC	10s k€ up to a few 100s k€
Seed	Launch of the activity, first recruitment	Few 100s k€ up to a couple of M€
Series A	Growth phase, scale-up, access to national market, recruitments	Few M€
Series B	Further growth e.g. international, acquire competitors, recruitments	10s of M€
Series C	Further growth e.g. increase market share, acquire competitors, recruitments	>100 M€

There exists a relationship between the maturity of a startup/company and its value. As a company grows, its financial need increases to follow the development of the different components of a company: personnel, assets, R&D, marketing etc… In parallel, the value of the company should also increase as its business and assets are being consolidated. The figure below illustrates the typical evolution of a startup becoming an established company.



In the following chapters, we will analyse two main types of equity funds that can invest in a blue economy SME:

- Venture capital funds and business angels
- Crowdfunding equity platforms

The procedure to engage with funds managers will be described in the next two chapters. This exercise aims at facilitating the smooth and successful interactions between investors and entrepreneurs active in the blue economy sectors.

2. VENTURE CAPITAL FUNDS AND BUSINESS ANGELS

Both venture capital (VC) funds and business angels (BA) are private equity investment tools. A VC fund is a collective investment vehicle that makes equity investments in early-stage businesses with high growth prospects. It pools cash from external investors and uses this to invest in a selection of diversified investment opportunities. By delegating the investment management process to venture capitalists, investors can access private equity returns passively. For reasons of clarity, we have considered the VC category encompasses the Asset and Fund managers as well as the pure VCs because they tend to proceed in a very similar manner when it comes to investing in an innovative company.

A BA is a private investor who provides capital to businesses, typically small or fledgling businesses, in exchange for an equity stake. Business angels can form investor groups, known as a syndicate that performs research, due diligence and investments in tandem. By pooling their resources, they reduce the burden of professional fees and, therefore, reduce their overall cost of investing.

However, please note that angels investing as part of a syndicate are still investing as individuals in their own right. Their own name would appear on the shareholder certificate, rather than the syndicate itself, which is not usually incorporated.

The main differences between a VC fund and a BA resides in three aspects which can be found in the table below

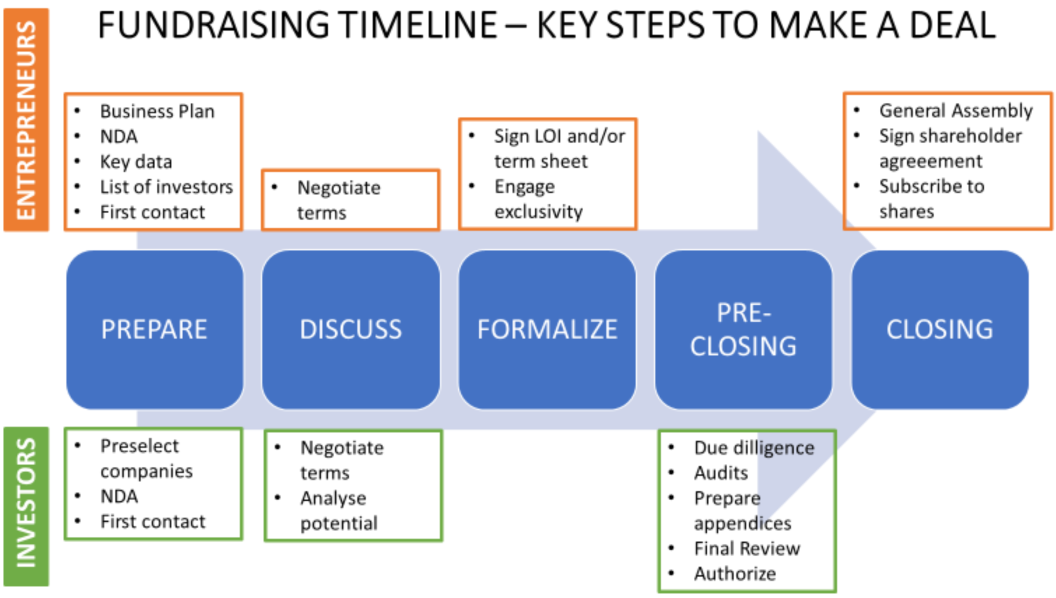
	Venture Capital fund	Business Angel
Agent & principal	Run by a professional acting as an agent	Directly operated by the principal investors
Level of influence	Does not usually exert significant influence over the strategy or daily operation of a startup	More active at the very beginning of business germination
Time investment	Monitor their investment with periodic meetings. Challenge growth plan and enquire about financial and exit strategies	Promise of consultancy and managerial support to a business alongside the cash on offer

Looking at the Blue Economy investment landscape in Europe, one can identify an increasing number of VCs and BAs having secured investments in startups/SMEs contributing to this sector. At the European level, the BlueInvest initiative serves as the crossroad for investors and entrepreneurs interested in developing sustainable innovative solutions for the Blue Economy.

Over the past 5 years, the portfolio of investors offering Blue Economy schemes has largely increased. Both new dedicated funds have appeared, and existing funds have clearly included the Blue Economy as one of their main areas of interest. Today more than 60 organizations can be found in the investor list of the BlueInvest community and it is rapidly growing since the new BlueInvest platform was recently renewed.

Whilst there are clear differences between a venture capital fund and a business angel, the process to secure an investment from one or the other remains largely the same. As a result, and for the sake of clarity, the following procedure applies to both VC and BA indiscriminately.

The figure below shows the main chronological steps of an equity fundraising deal. Starting from the very first contact between entrepreneurs and investors until reaching the official final closure of the deal, many twists can happen in the scenario! Moreover, the duration and the number of stakeholders involved in each step of the process may vary quite significantly.



In the following, we will describe each step in more detail. Key documents to be produced along the way will also be depicted:

Prepare

At first, entrepreneurs have produced a business plan with sufficient information about the company to attract interest in potential investors. This baseline document is typically constructed as follows:

BUSINESS PLAN	
Format	Pitch deck + 20-30 pages, mostly demonstrative explanations rather than descriptive
Content	At least 7 essential parts: - Executive summary - Products and services - Market analysis - Marketing and sales - Organisation and management - Financial modelling - Appendices

In parallel, the identification of investors often starts with informal contacts aiming at developing the network of relevant investors and funds. As soon as there is enough shared interest between the entrepreneurs and one representative of investors, a Non-Disclosure Agreement (NDA) should be signed in order to move onto the negotiation phase.

NON-DISCLOSURE AGREEMENT – NDA	
Format	A legally enforceable contract that establishes confidentiality between two parties—the owner of protected information and the co-contracting party who received the information.

Content	The most common parts include: - Parties - Confidentiality & exceptions - Disclosure of information - Destruction of materials - Period of enforcement / termination of confidentiality - Restraint provisions - Governing Law and Jurisdiction - Implications for Breach of Confidentiality

Discuss

Under a signed NDA, entrepreneurs and investors can start negotiating the terms of a potential deal between them. Initially, investors will challenge the soundness of the data-room feeding the business plan of the company. If both parties find enough common interest, a first proposal may be formulated in view of concluding a deal.

Formalize

If both parties are willing to further the terms of a possible deal, the entrepreneur will ask the investor to formally sign a Letter Of Intent (LOI).

LETTER OF INTENT – LOI	
Format	A letter declaring the preliminary commitment of one party to do business with a business owner. (up to 3-4 pages but typically 1-2 pages)
Content	An LOI usually describes - the investment fund - the motivations and reasons for investing - the framework of future relationship - the existence or not of exclusivity - the basis for the agreement in principle

Pre-closing

Once a LOI is signed by both parties, the pre-closing step is engaged, mostly consisting of a due diligence analysis. The investors will meticulously go through a checkpoint list in order to verify the underlying information about the company and fine-tune the evaluation of the risks associated with the investment. During this analysis, several components of the deal will be reviewed:

- Authenticity and objectivity of data used in the business plan
- Credibility of the indicators monitoring the performance expected by the business owner
- The evaluation of the valuation of the project
- The evaluation of the risks associated with the project
- The evaluation of the estimated rate of return

Closing

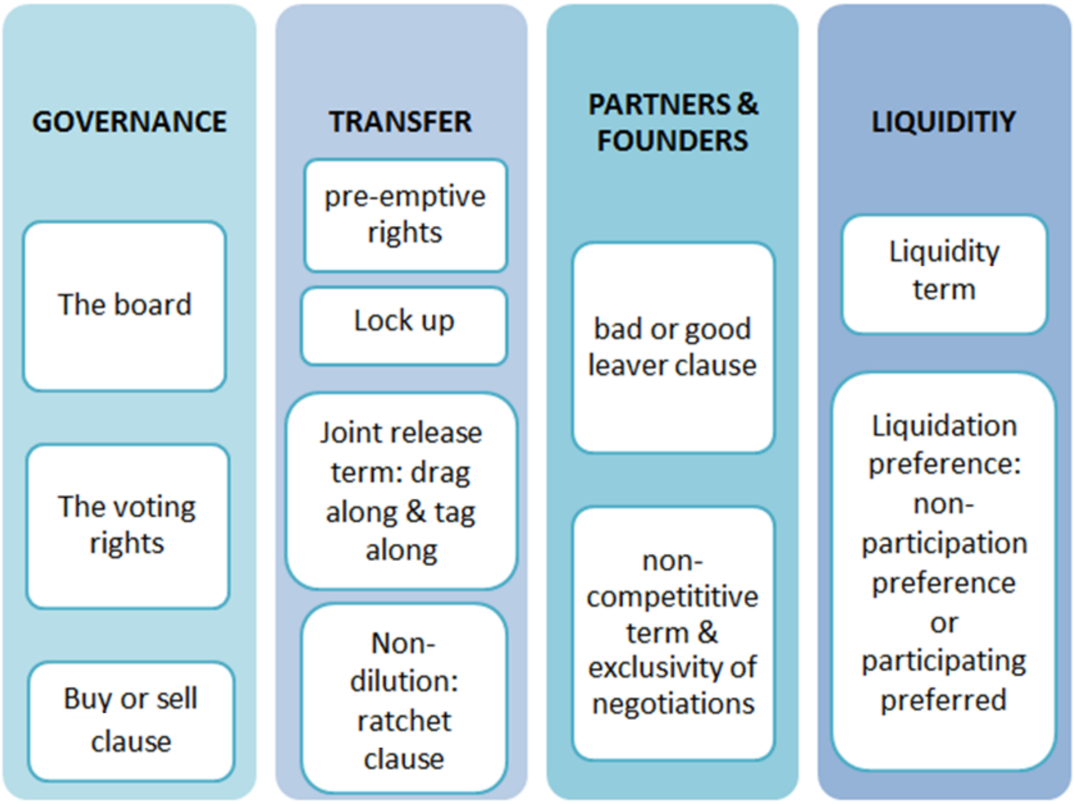
The final step of a fundraising journey coincides with the validation of the terms of the agreement. Among the main documents to be approved by both parties (investors and company's current shareholders), the term sheet includes

TERMS SHEET	
Format	Once signed and approved, the terms sheet is a legally binding document involving all parties taking part in the deal
Content	A terms sheet typically defines: - The company valuations, investment amounts, the percentage of stakes, and anti-dilutive provisions should be spelled out clearly. - Voting rights: avoid any disproportionate influence by the investor on the company's direction. - Liquidation preference: how the proceeds of a sale will be distributed between the entrepreneur and the investors. - Investor commitment: how long the investor is required to remain vested.

To conclude the fundraising process, a general assembly is summoned by the committee to approve the shareholders agreement:

SHAREHOLDER AGREEMENT	
Format	A document outlining how a company should be operated while defining shareholders rights and obligations
Content	A shareholders' agreement usually includes (while making reference to the terms sheet): - management terms (governance and board composition) - shareholders terms (privileges and protection of shareholders) - exit-terms (pre negotiated in the LOI)

A terms sheet is composed of four main components as illustrated below:

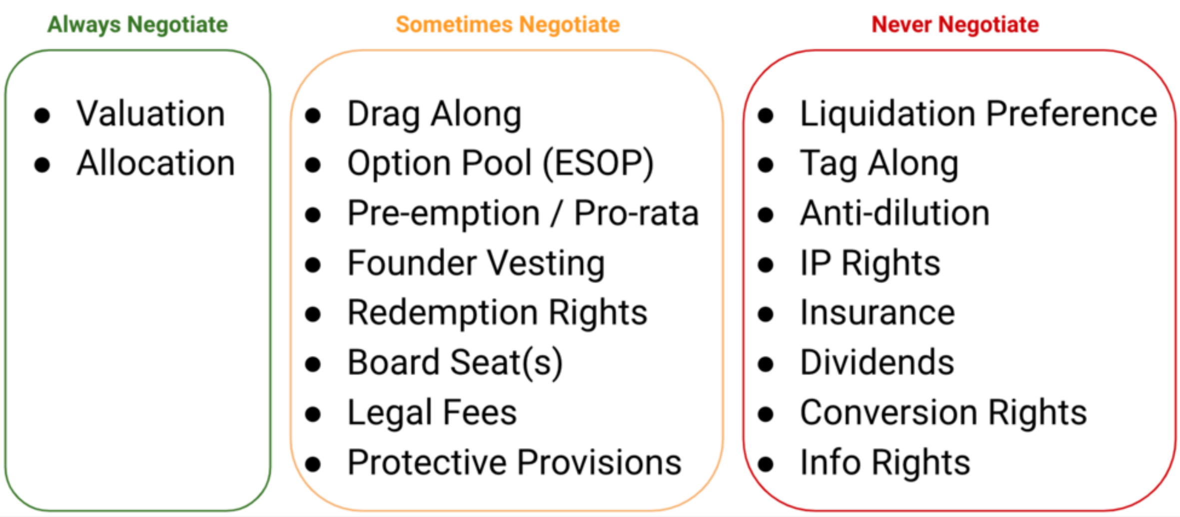


A more detailed definition of some key terms mentioned above is provided in the table below

Component	Term	Definition
Transfer	Pre-emptive rights	in case of sale of shares, the associates are consulted in priority + it enables to control the entry of news associates
	Non-dilution term	Each associate commits to do all the necessary in case of an increase of capital, resulting from an operation, by subscribing to this new equity capital in order to maintain, for each associate, the value of their equity finance and block the dilutive effects. This term permits to protect the minority investors who do not have a right of veto.
	Lock-up (inalienability term)	it prevents the rights for the associates to sell their shares before 24 months or 48 months. The goal is to stabilize the shareholders
	Joint release term	Drag along or tag along (see details below)
Partners & founders	Non-competitive term and	For example: the founder is committed not to open new negotiations during a period (40 to 65 days) with others investors

	exclusivity of negotiations	
Liquidity	Liquidity term	This term obliges companies to do their best effort for organize the sale of shareholders before a cutoff date.
	Date term	Encourages the associates (founders and investors) to gather with good faith before a cutoff date in order to agree about the sale of shareholders to a third party.
	Liquidity preference	Enables investors to receive in priority over other shareholders the first money from the sale or the liquidation of the company. Based on the model "last money in, first money out". With : • the "non-participating preferred" investors might get back their initial investment at best. • the "participating preferred": initial investment + a value proportional to the number of shares they have
Exit	Joint release term	Mostly divided into two options: • Drag along: minority shareholders must accept to sell their shares under the same conditions as the majority shareholders if those have accepted a 100% acquisition offer • Tag along : minority shareholders benefit from the same liquidity than major shareholders in case of sale or change of ownership of the company

Whilst there is no consensus on the main terms and conditions that must be negotiated, one can highlight some trends on the typical behavior of an entrepreneur engaging a discussion with an investor in order to reach a final agreement. The figure below intends to draw attention to what is typically negotiated in the terms and conditions.



Source: [1]

Among the above list, it is worth noting that some recommendations can still be considered during the negotiation process. Below is a table highlighting those recommendations:

Category	Main purpose	Recommendation
Liquidity preference	In the event of a liquidation / sell of the company	'Non-participating preferred' option is usually more favorable to founders/associates because external investors are less likely to have priority when deciding on the distributions of remaining shares
Pari Passu	Latin term "on equal footing" means that news investors claim to be, with all investors, on ranked equally, in order that each investor will receive a same right whereas the old investors paid a higher price for obtain this right	A 'NO-GO' condition when it strictly gives the same 'rights/ranks/seniority/advantages' of new investors compared to historical ones
Ratchet	When a company must do a new round of fundraising at a lower valuation than the first round => situation of down round. The ratchet term can be required by investors in order to protect them against the decline of the value of company.	Three options: • "Full-ratchet": the more dilutive option allowing to get back the average subscription price of the holder's shares beneficiaries of the ratchet to be reduced to the price of the new rounds of financing. NOT RECOMMENDED • "Narrow-based weighted average ratchet" allowing to get back the average subscription price at a weighted average of the price of the first round and the new round. • "Broad-based weighted average ratchet": most used option which involves an over dilution while limiting the dilutive effect of the founders.
Tag along	Joint exit clause in support of the minority shareholder in case of the sale of the majority shareholder shares.	The full tag-along right may be recommended in some cases since it protects the minority shareholder by allowing them to benefit the same liquidation (in same term and condition) as the majority shareholders (case of shareholders holds more than 50% of the equity)

[1] https://www.mattwichrowski.com/writing/fundraising-101-term-sheets

Drag along	Joint exit obligation in support of the majority shareholder (normally: the business owner is in) in case of the sale of the majority shareholder shares.	Often recommended
Governance	Define the rights of shareholder and the decision-making process of the board	Always ensure a strong representativeness of the founders in the board and other decision-making bodies
Pre-emptive rights / Pro-rata or right of refusal	In order to control the entry of new shareholders in the company.	Important to keep an eye on the conditions to new entry for the founders. Pre-emption right should be carefully protected
Bad/good Leaver	Anticipate the conditions under which a voluntary or not voluntary leave of an investor or founder occurs	Always define clearly the value of the vested and unvested shares depending on the conditions of the departure (mutual agreement, resignation, disagreement etc…)
'Buy or sell'	Reorganize the handover's shares in case of conflict between the partners of the company	Useful to avoid the 'Russian roulette' while defining the possible conditions to consent to pass shares between parties
Transfer of securities	Terms specifying the conditions of shares transfer	A few terms shall be negotiated including: - Anti-dilution (similar to ratchet) – help historical founders to maintain the same level of equity capital - Dead lock – how to overcome a blocking situation - 'Lock up' – Inalienability term preventing the associates from selling their shares before 24 months or 48 months. The goal is to stabilize the shareholders - Approval clause – conditions to reach an agreement when selling shares
Liquidity term	Organize the exit of the shareholders/partners triggered by a predefined time with a financial compensation	Attention on the method to value 'in advance' the price of a share to be sold

3. EQUITY-BASED CROWDFUNDING MECHANISM

In this document, the focus will remain in the "investment-based crowdfunding" model, commonly referred to as "Equity Crowdfunding". However, it is desirable to understand how crowdfunding works and that there are several models, which will be introduced in the first section. The second point examines the preparation phase for a crowdfunding round, from the analysis of the suitability of this financing tool for your ventures to the requirements to successfully apply for a crowdfunding campaign. Finally, we will dive into different approaches that crowdfunding platforms have towards the terms among the investors, the crowdfunding platform and the founders.

3.1 Introduction to crowdfunding

Crowdfunding is defined by the Oxford dictionary as "the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet."[2]

The Cambridge Centre for Alternative Finance annually compiles data from alternative sources of funding from all around the globe, and has found not only that there are several types of crowdfunding but also that new models constantly emerge to meet the needs of various stakeholders, from artists and entrepreneurs in need of capital to philanthropists and investors looking for opportunities to make good use of their wealth. In 2020's "The Global Alternative Finance Market Benchmarking Report"[3], the Centre defines "14 models that can be broadly divided into Debt models, Equity models or non-investment models."[4]. While it is out of scope for this document to dive into all models, it is important to understand the three main models of crowdfunding, as they serve different purposes.

The funding takes place on crowdfunding platforms, which match the supply and demand of the funds and are usually managed by private firms. This type of organizations is responsible for providing secure transactions and allowing the fundraising entities to reach a large number of potential donors or investors through the internet.

Crowdfunding is considered a way to democratize philanthropy and investment, where individuals can directly invest in the projects they value the most, instead of relying on intermediaries or missing opportunities reserved to sophisticated investors. For fundraisers, crowdfunding generally provides a more agile access to capital, often when other sources of

[2] Source: https://www.lexico.com/en/definition/crowdfunding

[3] Source: https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/

[4] Tania Ziegler, Rotem Shneor, Karsten Wenzlaff, Britney Wanxin Wang, Jaesik Kim, Ana Odorovic, Felipe Ferri de Camargo Paes, Krishnamurthy Suresh, Bryan Zheng Zhang, Daniel Johanson, Cecilia Lopez, Leyla Mammadova, Nicola Adams, Dan Luo , 2020. The Global Alternative Finance Market Benchmarking Report. Cambridge Centre for Alternative Finance.

financing are out of reach. While this benefit is transversal to all forms of crowdfunding, some models solve particular needs and offer specific advantages.

Non-investment crowdfunding

This model is comprised mainly by donation-based crowdfunding and reward-based crowdfunding. These are considered to be the most recognized by the general public, where "individuals provide funding to a project, an individual or a business without any obligation from the fundraiser to provide a monetary return for the funds raised." (Tania Ziegler, 2020)

Donation-based crowdfunding, as its name states, allows online donations. Social organizations and individuals in urgent need of capital (e.g., medical expenses, victims of natural disasters, pandemics or crimes, etc.) are the obvious beneficiaries of this model. Philanthropists and individual donors are drawn to donation-based crowdfunding platforms.

Reward-based crowdfunding is suited to a broader range of initiatives, be them social, artistic or entrepreneurial. Usually, individuals and businesses that get funded give a return to their backers in the form of a "reward", be it purely symbolic, a service or a product. Businesses that raise capital through this tool usually offer a product to the end consumer segment, in the form of a pre-sale. Businesses are able to raise capital for the manufacturing of a product by pre-selling it directly to consumers looking for artistic, creative or innovative products, bypassing the traditional pre-seed and seed capital raising methods. "Business to business" services or products are, on the other hand, generally perceived as ill-suited for this type of crowdfunding.

In most cases, project creators have up to two or three months to collect 100% of the necessary funding, otherwise the backers get their donations back.

Example: Sea4Us, a Portuguese company that uses marine compounds for the development of novel therapeutic drugs, particularly for chronic pain, raised thousands of euros on PPL, a reward-based crowdfunding platform in Portugal. [5]

Debt-based crowdfunding

Lending-based crowdfunding platforms "facilitate online credit to individuals, businesses or other borrower entities from individual lenders or institutional investors. This debt can be in the form of a secured or unsecured loan, a bond or another type of debtor-note." (Tania Ziegler, 2020).

Because borrowers have to repay their debts, this form of crowdfunding is comparable to loans from financial institutions such as banks or to issuing bonds, for example. However, startups and small businesses often have difficulties in accessing such instruments due to lack to credit history or collaterals. Issuing bonds, for example, is usually reserved for big firms or corporations. Research and innovation projects have known barriers in accessing such funding.

[5] More information: https://ppl.pt/en/node/117464

Because loans must be repaid, this type of crowdfunding is more appropriate for small businesses with existing sales and cash-flow. Research entities or firms that are still looking to commercialize their products might find a better fit with investment-based crowdfunding.

Example: Oceano Fresco develops and produces bivalve varieties with superior performance for shellfish farmers at a competitive cost, respecting environmental sustainability and ensuring consumer safety. It has successfully raised funds through a lending-based crowdfunding platform focused on sustainable businesses, called GoParity[6].

Investment-based crowdfunding

In this model, "individuals or institutions invest in unlisted shares or securities issued by a business, typically an SME." (Tania Ziegler, 2020).

While issuing shares or securities was only affordable by big firms, investment-based crowdfunding allows startups and small businesses to attract sophisticated and retail investors, which in turn have the possibility to directly invest in these companies, an activity previously exclusive to professional investors.

Frequently known as an alternative to raising pre-seed or seed capital, it is sometimes used in complement with traditional investors, such as Business Angels, Venture Capital and other investment firms. Indeed, these private capital investors often use crowdfunding platforms to scout the next investment opportunity.

Example: Company Noa Marine raised more than 200 000 euros through equity-based platform Seedrs. The company develops underwater drones to cut cost of ocean exploration and shape the future of the maritime connected world[7].

3.2 Preparation for investment-based crowdfunding

Is crowdfunding the right financing tool for your business?

With the crowdfunding definitions in mind from the previous section, it is important to determine if crowdfunding is the right financing tool for your company. While every case is different, usually startups and companies that resort to equity-based crowdfunding are businesses that are able to meet Business Angels' or Venture Capital requirements, i.e. are ready to raise Pre-seed, seed and Series A capital in exchange for an equity stake, as described in the Introduction of this document.

In many aspects, the requirements and processes are similar among these financing methodologies as they are more and more used as alternatives or in complement with one another.

[6] More information: https://goparity.com/en/projects/51
[7] More information: https://www.seedrs.com/noa

With crowdfunding, instead of pitching to one or a limited number of potential professional investors, founders will attract a vast pool of smaller investors. This group of investors is usually composed of the founders' closest acquaintances, the project's stakeholders such as loyal customers and potentially some professional investors as well. All in all, the entrepreneurs will have gathered a community of brand ambassadors as they have invested in the project's success. Recognized brands like Revolut have successfully used crowdfunding[8] to offer their customers the opportunity to buy a stake in the company and increase their loyalty.

To know more about the specificities of crowdfunding in Europe, make sure to check the latest published regulation as it might influence your decision on whether or not use this financing tool. For example, at the time of the publication of this article, the "Regulation on European Crowdfunding Service Providers[9]" facilitates the engagement of investors on a pan-European level but establishes a threshold of a maximum of 8 million euros raised per campaign. This excludes crowdfunding from Series B and C rounds.

Preparation phase before submitting a campaign

Business plan

The first step to raise capital, and crowdfunding is no exception, is to plan in advance and work on the business plan. According to Seedrs, it is advisable to start preparing the document 6 months before you're planning on getting the funds. Determining how much capital your business needs and producing a compelling pitch deck valuation, identify investors willing to invest in campaign are the first key actions at this stage. There are many resources online to assist founders in this phase. Specific advisory on these topics is out of scope for this document, but founders considering crowdfunding should consult crowdfunding platforms' resources for more specific tips, such as Seedr's timeline of the fundraising process[10].

Identify the crowdfunding platform that suits your needs

Similarly to the identification of potential investors described in the sections above, it often starts with informal contacts with the platforms aiming at exploring the terms they offer and the requirements to start a campaign. Some key factors founders might consider before choosing a crowdfunding platform are:

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[8] Revolut's crowdfunding history at Crowdcube, https://www.crowdcube.com/explore-companies/revolut?country=GB

[9] Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R1503

[10] Scott Simpkin. From Start to Finish: A Timeline of the Fundraising Process. https://www.seedrs.com/academy/from-start-to-finish-a-timeline-of-the-fundraising-process

- The market where the platform operates. At the time of the publication of this article, some platforms have been granted a license that allows them to operate at a pan-European level. If you are looking to attract investors (i.e., brand ambassadors) across several countries, this might be of significant importance. Needless to say, any platform that founders consider must at least be compliant with securities laws and regulation in its country or territory.

- One of the main pillars of crowdfunding is the agility of the funding process, be it from the investors' or founders' perspective. The platforms features and capabilities as well as their ease of use are strong factors when choosing the most appropriate one.

- Another significant argument for crowdfunding is transparency. The track record, quality and accuracy of the data provided by the equity crowdfunding platform is key to ensure credibility among your community.

- Confirm under what conditions the investment will be formalized. For example, founders can select a nominee service or a direct structure in Crowdcube[11]. This has direct implications in the future management of investor relations. You can also verify if there are tax relief incentives in your country.

- Eventually, founders might want to choose a platform that focuses on a particular industry. While this is rare in the Blue Economy sector, it is common to find platforms that focus on Real Estate deals or other verticals.

Structure a marketing plan for your campaign

As mentioned earlier, crowdfunding campaign owners need to attract dozens if not hundreds or thousands of investors. This is why careful planning for this phase is essential for success. Some platforms mention several phases:

- Close investors: Before approaching a crowdfunding platform, you will need to arrange investment meetings with your network. Most crowdfunding platforms strongly advise against running a campaign if founders have not secured an initial investment of around 30% of the total target. Among several other reasons, one of the main arguments for this approach is that if a founder is unable to attract investment from his family, friends and close acquaintances, then he will probably be unable to attract a more anonymous crowd to do so. A crowdfunding campaign

[11] Crowdcube Nominee. https://www.crowdcube.eu/explore/raising/nominee

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with no investments is simply not attractive: would an investor prefer to put his money in a campaign that doesn't seem to attract even the founders' closest acquaintances or in a campaign that is rapidly closing its funding round?

- Wider audience: Identify your potential investors in the crowd. It is common to assume that any person with a little spare money would be willing to invest in your vision and the unique opportunity that you are offering, but it is often advised to clearly identify your business' target audience, the people that are most likely to back your project or buy your products and services. Where are they located? How can they be reached? Get a plan in place that will allow you to spread the word throughout the duration of your campaign using all available channels, e.g., social and traditional media, your website, events, etc. As mentioned above in this document, take in consideration that retail investors' motivation is frequently a mix between financial returns and the excitement of taking part in your adventure. Your mission or the impact of your business is more likely going to catch the eye of your audience than a table with numbers and KPI's!

Submit your campaign

On the crowdfunding platform that you carefully chose, start working on the crowdfunding campaign. It is often an online form and should be a straightforward process after registering. Crowdfunding platforms should offer support if needed and usually have published a significant number of online resources to help you create the best possible campaign.

When you submit your form, a dialogue is usually started between the founders and the crowdfunding platform. This is frequently the phase where the crowdfunding platform staff will more carefully analyse your proposal. Does it meet the platform's specific requirements? Is the valuation in line with their analysis? Are there any recommendations to improve the campaign? Do any of your claims need evidence? Every platform might follow their own due diligence guidelines, which are usually made public, such as Seedrs' due diligence guide[12].

After the crowdfunding platform's due diligence, it is expected that an agreement will be signed among the parties. Carefully analyse the proposed terms – is every single investor a shareholder? Or is the group of investors represented by an entity? What are your own and your potential investors' voting rights? Confirm all the implications for the founders of your venture as well as for your potential investors. You will probably be asked a lot of questions from your potential investors, so you better have all the answers (see the section "Terms" below in this document).

[12] Kirsty Grant: *Due diligence: The Seedrs Standard* https://help.seedrs.com/en/articles/1782461-due-diligence-the-seedrs-standard

Start your campaign

When all requisites are met and all parties have an agreement, it is time to publish the campaign, start spreading the word and receive the first investments. Depending on the platform, there might be a "private" phase for priority investors before going publicly live.

If people are not aware of the campaign, they will not be able to invest. It is time to implement and, if necessary, adjust the marketing plan. Make sure you take advantage of the platform functionalities: it is often advised to frequently update the campaign with fresh news, recently reached milestones or new goals. Founders that use crowdfunding do so because they show traits of openness and transparency, and should therefore be close to their potential investors, available to answer any questions, open Q&A sessions, etc.

3.3 Terms

Being a private capital investment, crowdfunding is similar to the previously discussed investment types in this document, and the terms and conditions to be agreed between parties are identical to those described in detail in section 2.1 – the term sheet.

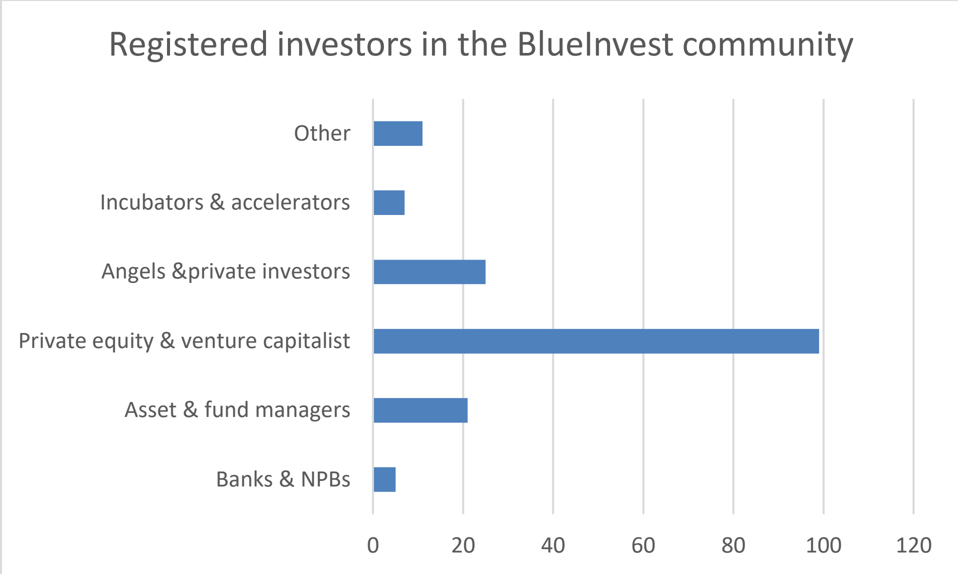
Every crowdfunding platform may have one or several pre-established models – it is important to understand well the conditions applied before running the campaign. For example, Crowdcube offers two types of structure: the nominee structure and the direct structure. As detailed in their website[13], with the nominee structure, "Crowdcube holds and is the legal owner of shares on behalf of the beneficial owners, the underlying investors. While the 'Crowdcube nominee' holds the legal title to the shares, the beneficiary (i.e., the investor) has the right to any benefits associated with the investment". With the direct structure, investors are shareholders of the company, without intermediaries.

As with the more "traditional" private investors described above in this document, it is important that the entrepreneur clearly understands the agreed terms and conditions, which can only be accomplished with an honest and transparent dialogue with the crowdfunding platform.

4. INVESTMENT LANDSCAPE IN THE BLUE ECONOMY

At the European level, the investment community interested in the Blue Economy is gathered under the BlueInvest initiative. Over the past few years, a rapidly growing number of investors have joined the platform. To-date, 168 investors registered a complete profile. You can see below the number of investors per category.

[13] Crowdcube Nominee. https://www.crowdcube.eu/explore/raising/nominee



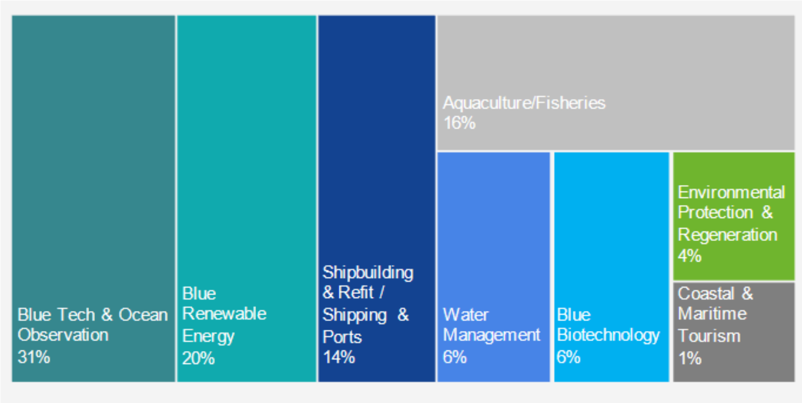
In March 2023, the most recent ‘BlueInvest report’ was released[14]. Some FAN-BEST partners have directly contributed to this report. Rather than extracting the whole content of this report, we suggest looking into some of the key outcomes reflecting with the present analysis.

One of the main messages of the introductory chapter lies in the great potential for sustainable investment in line with positive and growing trends among the blue economy landscape. Despite a proven growth track record, well above most other sectors, there is a large gap of availability of fundings. This is well illustrated by the massively under-funded SDG 14 compared to the other SDGs.

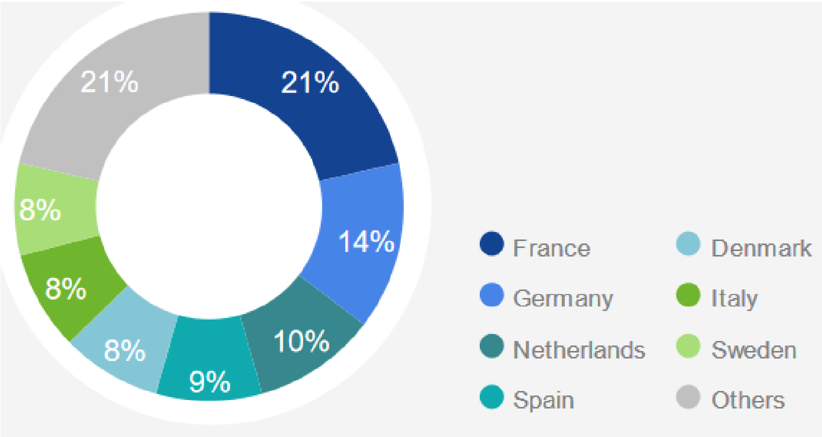
Whilst EU-27 continues to play a pioneering and leading role in many blue economy sectors, other rich and emerging countries have ambitious plans to position themselves as frontrunners for innovation in blue economy.

The report also highlights an analysis of 2 142 investors who made one or more deals in 1 774 companies related to the blue economy. We show below how these deals map with geographical and sectorial.

[14] INVESTOR REPORT: AN OCEAN OF OPPORTUNITIES, PwC, 2023

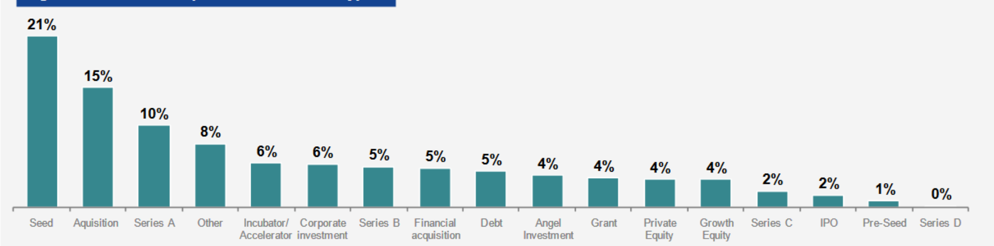


- **Geography:** all EU-27 countries were assessed, showing that frequency of investment deals were higher in countries with larger economies and stronger geographic and economic links with the European sea basins.



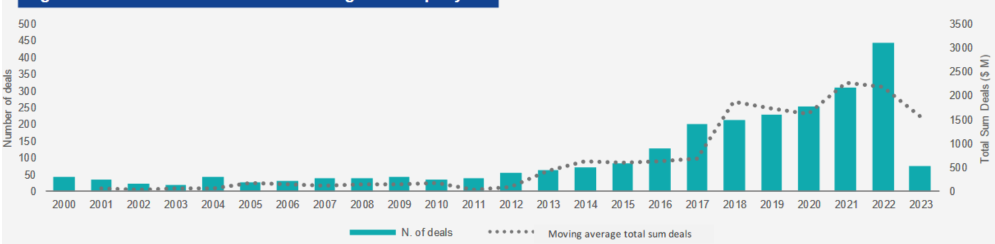
And below are the deal type and yearly evolution analysis:

Fig. 2.7: Investments per round and deal type*



- **Volume and spread of investments:** amount invested and number of deals (sample from January 2000 to February 2023).

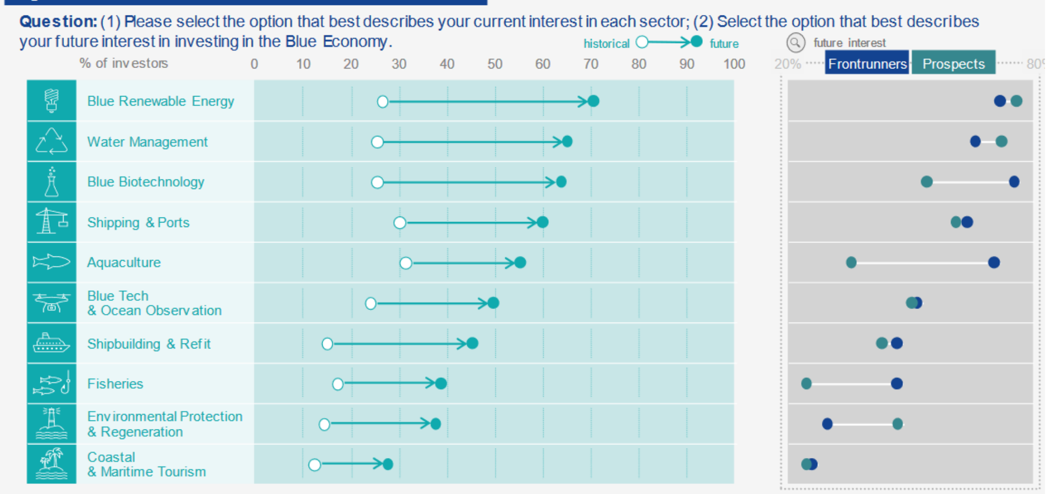
Fig. 2.8: Number of deals and total funding amount per year



In addition, the BlueInvest report provides a macro analysis of public funding mechanisms offered at an EU level which are accessible to blue enterprises.

Lastly, a chapter of the BlueInvest report is dedicated to a survey analysis of the investor perspectives. Results clearly indicate that there is a growing interest in investing in the blue economy with 80% of respondents intending to raise money in the short to medium term. All blue economy sectors will benefit from this enthusiasm. The figure below extracted from the report depicts the trends for each subsector.

Fig. 3.7: Historical and future interest in each sector**



Note: **n=77 for historical and future interest; n=46 for Frontrunners; n=30 for Prospects.

There exist various factors motivating an investor to investigate blue economy, namely:

- Strong innovation potential
- Appealing growth prospects
- ESG Impact-driven companies

Investors are covering the typical investment journey of an innovative company ranging from early-stage seed funding until series B or C. However, it should be noted that pre-seed, or very early-stage fundraising often remain within local investors that rarely have a dedicated blue economy strategy as part of their portfolio.

The main barriers to blue economy investment continue to be the need for a large upfront investment often due to the fact that, to demonstrate a new blue product or service, it will require going at sea where operations are risky and costly. Although there seems to be a good coverage of the investment continuum, we still observe a lack of investment-grade projects. Finally, the BlueInvest report reminds us the investor's own lack of expertise or knowledge in the blue economy.

5. CONCLUSION

To conclude, we summarize some of the key recommendations of good-practices to raise equity/capital funds both from the perspective of investors and entrepreneurs in the table below. These recommendations mostly apply to VC and Business angels.

Recommendations for entrepreneurs	Recommendations for investors.
• Target the types of investors likely to be interested. • Check with the investor if he recommends a standard file. • Have an efficient one-page summary. • The discussion with investors can be facilitated by the intervention of a fundraising advisor. The best fundraisers know how to defend the interest of the file and favor the financing of the project without wanting to overprotect the founders. • It is necessary to limit the cases where the decisions require the unanimity of all investors (incl business angels) to avoid the blockage which would be due to the difficulty of obtaining a favorable vote. • It is useful to deal with a leading investor and one angel representing all business angels. • Dematerialized consultation methods (online voting, consultation by email, etc.) can facilitate the management. • Properly structure the company in the event of prior financing by friends & family, business angels or Crowdfunding • Avoid arrangements blocking the company's future financing. • The use of a holding company bringing together all or some investors, or any other ad hoc representation system, greatly simplifies the conclusion of agreements with the new investor. • It is essential to keep in touch with the investors already present and to	• Respond quickly to requests sent funding, including in the event of a response negative. • Take advantage of the possible presence of business angels and the work they have done with the entrepreneur, and dialogue with them before and after the investment. Depending on the case, it may be useful to retain a place for them on the company's board of directors or supervisory board. • Verify as early as possible which current shareholders intend to participate in the new round of financing. • Respect the duty of confidentiality • Define clearly the format and information you require in the data room • Communicate early enough the list of documents and the process that will be carried out between the signing of the letter of intent and the closing. • Coordinate your requests with your co-investors • It is recommended (and in line with the obligation of information of the civil code) to plan a discussion with the Company on the results of the audits, even to communicate the reports to it audits if the company has paid for the audits.

properly keep track of changes in the capital. • Rely on the professional confidentiality obligations of investors, which makes it possible not to lose time negotiating unnecessarily detailed confidentiality undertakings • Play the game of transparency and sincerity. • Creating an "electronic data room" on a dedicated server to manage access is not necessarily necessary, but the requested documents must be kept up to date and made available (capitalization table, registers, important contracts, - intellectual property...). • Delays and omissions are sources of delays and costs. • Bad last-minute surprises have a disastrous effect.	

Is crowdfunding the right mechanism to raise capital? As stated above, there are several factors that might influence the answer to this question. First and foremost, the best crowdfunding model must carefully be selected, depending on the stage and nature of the project. Is the company ready to pre-sell a revolutionary product to end consumers? If so, maybe reward based crowdfunding is ideal to raise the necessary capital to start the production without foregoing equity and, at the same time, attracting hundreds of customers and brand ambassadors. Is it an established business that needs a loan? Then it might benefit from borrowing capital from a debt-based crowdfunding platform. If it is a start up with high growth potential then equity-based crowdfunding might help it raise capital.

As discussed previously in the document, in the case of equity-based crowdfunding (our focus in this study), the fundraising timeline is similar to the one described for Business Angels or Venture Capital. It is crucial to be prepared with a solid business plan, but also to choose the best possible crowdfunding platform and make sure to understand the investment terms. In addition, it is advised to be open and transparent but, if applicable, to protect the intellectual property of the company as the crowdfunding campaign will be publicly available.

Crowdfunding platforms offer retail investors the opportunity to look for exciting investment deals that were previously reserved to high-net worth individuals or professional investors. By investing small sums in several deals, individuals can positively contribute to the success of promising projects and diversify their investment portfolio.

Professional investors also benefit from accessing the opportunities published in the platforms and investing along the crowd. The pre-screening of the projects by the crowdfunding platforms and the further validation of the crowd might present a favourable option for professional investors to choose the most attractive projects and further diversify their portfolio.

Fundraising mechanisms are not mutually exclusive, and this is especially true with crowdfunding. Both entrepreneurs and investors might find unique advantages with this fundraising tool.